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# Compliance Section

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# McGladrey & Pullen

Certified Public Accountants

**Independent Auditor's Report  
on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based  
on an Audit of Financial Statements Performed  
in Accordance With *Government Auditing Standards***

To the Honorable Mayor and Members of the City Council  
City of Salisbury, North Carolina

We have audited the basic financial statements of the City of Salisbury, North Carolina, as of and for the year ended June 30, 2004, and have issued our report thereon dated August 27, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the City of Salisbury's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the City of Salisbury's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, members of City Council, others within the organization, federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*McGladrey & Pullen, LLP*

Greensboro, North Carolina  
August 27, 2004

# McGladrey & Pullen

Certified Public Accountants

**Independent Auditor's Report  
on Compliance With Requirements Applicable to Each Major  
Federal Program and on Internal Control Over Compliance in Accordance  
With OMB Circular A-133 and the State Single Audit Implementation Act**

To the Honorable Mayor and Members of the City Council  
City of Salisbury, North Carolina

***Compliance***

We have audited the compliance of the City of Salisbury, North Carolina, with the types of compliance requirements described in the U. S. Office of Management and Budget ("OMB") Circular A-133 *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to each of its major federal programs for the year ended June 30, 2004. The City of Salisbury's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Salisbury's management. Our responsibility is to express an opinion on the City of Salisbury's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Salisbury's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Salisbury's compliance with those requirements.

In our opinion, the City of Salisbury complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

***Internal Control Over Compliance***

The management of the City of Salisbury is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Salisbury's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State Single Audit Implementation Act.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, members of City Council, others within the organization, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*McGladrey & Pullen, LLP*

Greensboro, North Carolina  
August 27, 2004

# McGladrey & Pullen

Certified Public Accountants

**Independent Auditor's Report  
on Compliance With Requirements Applicable to Each Major  
State Program and on Internal Control Over Compliance in Accordance  
With OMB Circular A-133 and the State Single Audit Implementation Act**

To the Honorable Mayor and Members of the City Council  
City of Salisbury, North Carolina

***Compliance***

We have audited the compliance of the City of Salisbury, North Carolina, with the types of compliance requirements described in the U. S. Office of Management and Budget ("OMB") Circular A-133 *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to each of its major State programs for the year ended June 30, 2004. The City of Salisbury's major State programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major State programs is the responsibility of the City of Salisbury's management. Our responsibility is to express an opinion on the City of Salisbury's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about the City of Salisbury's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Salisbury's compliance with those requirements.

In our opinion, the City of Salisbury complied, in all material respects, with the requirements referred to above that are applicable to each of its major State programs for the year ended June 30, 2004.

***Internal Control Over Compliance***

The management of the City of Salisbury is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered the City of Salisbury's internal control over compliance with requirements that could have a direct and material effect on a major State program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State Single Audit Implementation Act.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major State program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of management, members of City Council, other within the organization, State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*McGladrey & Pullen, LLP*

Greensboro, North Carolina  
August 27, 2004

**CITY OF SALISBURY, NORTH CAROLINA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**

**Year Ended June 30, 2004**

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantors' Number</u>	<u>Federal Direct &amp; Pass-through Expenditures</u>	<u>State Expenditures</u>	<u>Local Expenditures</u>
<b>FEDERAL GRANTS:</b>					
<b>CASH PROGRAMS</b>					
<b>FEDERAL EMERGENCY MANAGEMENT AGENCY</b>					
Department of Homeland Security					
Direct Program:					
Assistance to Firefighters Grant	97.044	EMW-2003-FG-06278	\$ 159,479	\$ -	\$ 17,720
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>					
Direct Program:					
Community Development Block Grant					
Entitlement Program	14.218	B-00-MC-37-0015	\$ 2,951	\$ -	\$ -
Entitlement Program	14.218	B-01-MC-37-0015	28,860		
Entitlement Program	14.218	B-02-MC-37-0015	18,715		
Entitlement Program	14.218	B-03-MC-37-0015	419,409	-	-
			<u>\$ 469,935</u>	<u>\$ -</u>	<u>\$ -</u>
Community Development Block Grants					
Section 108 Loan Guarantees	14.248	B-00-MC-37-0015	\$ 375,000	\$ -	\$ -
Pass-through N.C. Department of Housing Finance Agency HOME Program	14.239	R-90-SG-37-0117	\$ 174,182	\$ -	\$ 88,195
Total U.S. Department of Housing And Urban Development			<u>\$ 1,019,117</u>	<u>\$ -</u>	<u>\$ 88,195</u>
<b>U.S. DEPARTMENT OF JUSTICE</b>					
Office of Justice Programs:					
Office of Community Oriented Policing Services					
Direct Program:					
COPS in Schools	16.710	2000-SH-WX-0245	\$ 7,132	\$ -	\$ -
COPS More	16.710	2001-CM-WX-0272	36,009	-	9,569
			<u>\$ 43,141</u>	<u>\$ -</u>	<u>\$ 9,569</u>
Bureau of Justice Assistance					
Direct Program:					
Local Law Enforcement Block Grant	16.592	2001-LB-BX-2345	\$ 16,750	\$ -	\$ 2,031
Local Law Enforcement Block Grant	16.592	2002-LB-BX-2090	15,370	-	2,523
Local Law Enforcement Block Grant	16.592	2003-LB-BX-1189	2,670	-	298
			<u>\$ 34,790</u>	<u>\$ -</u>	<u>\$ 4,852</u>
Total U.S. Department of Justice			<u>\$ 77,931</u>	<u>\$ -</u>	<u>\$ 14,421</u>



**CITY OF SALISBURY, NORTH CAROLINA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**

**Year Ended June 30, 2004  
(Continued)**

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantors' Number</u>	<u>Federal Direct &amp; Pass-through Expenditures</u>	<u>State Expenditures</u>	<u>Local Expenditures</u>
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>					
Pass-through N.C. Department of Transportation:					
Urban Mass Transportation Grants					
Administration	20.507	36233.25.5.1	\$ 96,780	\$ 6,049	\$ 18,147
Operating	20.507	36233.25.5.2	109,394	-	387,853
			<u>\$ 206,174</u>	<u>\$ 6,049</u>	<u>\$ 406,000</u>
Highway Planning and Construction					
Passed-through N. C. Department of Transportation Transportation Enhancement Program	20.205	E-4551	<u>\$ 169,856</u>	<u>\$ -</u>	<u>\$ 99,757</u>
Total U.S. Department of Transportation			<u>\$ 376,030</u>	<u>\$ 6,049</u>	<u>\$ 505,757</u>
TOTAL ASSISTANCE - FEDERAL PROGRAMS			<u>\$ 1,632,557</u>	<u>\$ 6,049</u>	<u>\$ 626,093</u>
<b>STATE GRANTS:</b>					
<b>CASH PROGRAMS</b>					
<b>N.C. DEPARTMENT OF TRANSPORTATION</b>					
Powell Bill	N/A		<u>\$ -</u>	<u>\$ 842,430</u>	<u>\$ -</u>
State Maintenance Assistance for Transit Systems	N/A	04-CTP-003	<u>\$ -</u>	<u>\$ 160,282</u>	<u>\$ -</u>
Total N. C. Department of Transportation			<u>\$ -</u>	<u>\$ 1,002,712</u>	<u>\$ -</u>
<b>N.C. DEPARTMENT OF ENVIRONMENT &amp; NATURAL RESOURCES</b>					
Division of Parks and Recreation 2003 Recreational Trails Program	N/A	03M14	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ -</u>
<b>N.C. DEPARTMENT OF CRIME CONTROL &amp; PUBLIC SAFETY</b>					
Division of Governor's Crime Commission Project SAFE Neighborhoods Resource Coordinator		080-1-03-001-2-137	<u>\$ -</u>	<u>\$ 6,882</u>	<u>\$ -</u>
TOTAL ASSISTANCE - STATE PROGRAMS			<u>\$ -</u>	<u>\$ 1,059,594</u>	<u>\$ -</u>
TOTAL ASSISTANCE			<u>\$ 1,632,557</u>	<u>\$ 1,065,643</u>	<u>\$ 626,093</u>

**CITY OF SALISBURY, NORTH CAROLINA**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**Year Ended June 30, 2004**

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**1. General**

The accompanying Schedule of Expenditures of Federal and State Awards includes the federal and State grant activity of the City of Salisbury, North Carolina, and is presented on the modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the *State Single Audit Implementation Act*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**CITY OF SALISBURY, NORTH CAROLINA**  
**SCHEDULE OF COMPLIANCE FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2004**

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**Section I. Summary of auditor's results:**

Financial Statements

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weakness(es)? ☐ Yes ☒ None Reported

Noncompliance material to financial statements noted

☐ Yes ☒ No

Federal Awards

Internal control over major program:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses(es)? ☐ Yes ☒ None Reported

Type of auditor's report issued on compliance for major federal program:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133?

☐ Yes ☒ No

Identification of major programs:

CFDA Number

14.248

20.205

Name of Federal Program

CDBG Section 108 Loan Program

Highway Planning and Construction

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?

☒ Yes ☐ No

State Awards

Internal control over major State programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses(es)? ☐ Yes ☒ None Reported

Type of auditor's report issued on compliance for major State program:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Program?

☐ Yes ☒ No

Identification of major State program:

Powell Bill

**Section II. Findings Related to the Audit of the Basic Financial Statements of City of Salisbury**

None reported.

**Section III. Federal Award Findings and Questioned Costs**

None.

**Section IV. State Award Findings and Questioned Costs**

None.

**CITY OF SALISBURY, NORTH CAROLINA**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**Year Ended June 30, 2004**

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There were no prior year audit findings.